



**Executive Office**  
P.O. Box 942701  
Sacramento, CA 94229-2701  
Telecommunications Device for the Deaf – (916) 795-3240  
(916) 795-0902; FAX (916) 795-2545

November 14, 2006

### **AGENDA ITEM 3**

#### **TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE**

- I. SUBJECT:** Update on Partnership for Change
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information only
- IV. ANALYSIS:**

#### **Background**

The CalPERS Board of Administration approved the “Partnership for Change: Promoting Value in Hospital Care” initiative in February 2005. The Partnership for Change has the following objectives:

- Promote a competitive and functioning healthcare marketplace.
- Establish objective efficiency and quality metrics to differentiate value among hospitals.
- Create performance transparency in hospital costs and quality for purchasers and consumers.
- Improve stability and predictability of hospital reimbursements, and
- Eliminate anti-competitive practices by hospitals.

This is the fifth progress report on the Partnership for Change. We will provide an update on two parts of the Partnership for Change--the Hospital Value Initiative and the California Hospital Assessment and Reporting Taskforce.

#### **Hospital Value Initiative**

The Hospital Value Initiative (HVI) is a collaborative effort of CalPERS, Pacific Business Group on Health (PBGH), and the major health plans in California. HVI has the following objectives:

1. Combine the paid claims data from five of the largest health plans in California (Aetna, Blue Cross, Blue Shield, Health Net, PacifiCare) to develop for each hospital in California the true risk- and severity-adjusted cost of care and resource use for patients in particular diagnosis related groups. The HVI will compare results of similar hospitals statewide and

regionally to identify those facilities in each group that exceed the statewide, region, and peer group averages for their group.

2. Engage the hospital community in constructive discussions to determine the reasons for the higher costs and develop a long-range strategy to work with the hospitals to bring about long-term reductions in the cost of hospital care. We believe that we can achieve long-term cost reductions only if we bring the hospitals to the table to develop lasting solutions.

We are well on our way to completing the first objective. We have been working with Milliman (the third-party data aggregator), hospital representatives, and the health plans to ensure that the cost and resource use data will be accurate and equitable. Health plans raised appropriate concerns about situations where a health plan has a majority of the business of a particular hospital (primarily rural). In these situations, the aggregated data could disclose the price the health plan pays. We believe that we have arrived at an acceptable solution. Once the health plans submit data, the HVI Workgroup will evaluate the results, and decide how to report the final cost and resource use information.

Regarding the second objective, Assistant Executive Officer Terri Westbrook reported at the October Health Benefits Committee, that the California Hospital Association (CHA), Catholic Healthcare West (CHW), and Sutter Health recently sent letters to participating health plans, CalPERS, and PBGH stating concerns about perceived violations of anti-trust law and health plan contractual confidentiality provisions, technical aspects of the cost efficiency measures, and the absence of quality of care measures (see the discussion below regarding the quality issues). CalPERS and PBGH Executive staff had discussions with CHA, CHW, and Sutter on these issues. On October 26, CHA sent a letter further explaining their concerns.

All three hospital organizations have stated that they are willing to work with us to overcome their concerns. CHW stated that they are very supportive of cost and quality transparency and believe that other hospitals will join in a constructive effort to successfully complete the HVI. We should keep in mind that not all hospitals support transparency because it will require them to change how they conduct their business. This means that we will continue to receive resistance from these organizations.

#### **Hospital Quality Measurement: California Hospital Assessment and Reporting Taskforce (CHART)**

Researchers with the University of California, San Francisco, with the support of the California Healthcare Foundation, are leading the CHART initiative to collect and publicly report hospital clinical quality and patient experience measures.

The objectives of CHART are:

1. Stimulate improvement in the quality of hospital care, and
2. Provide consumers and purchasers the information they need to identify the highest quality hospitals.

CHART includes representatives of all relevant stakeholders including purchasers, health plans, hospitals, and consumers. More than 200 California hospitals have agreed to participate and pay the costs of their data collection. These hospitals represent over 70 percent of the daily-occupied hospital beds in California. The first-year report will include more than 50 hospital quality measures (see attachment). Our hope is that we can combine these quality indicators with the results of the HVI to make both cost and quality information available to purchasers and consumers. To date, however, the hospitals have made it clear that they will not participate in the CHART project if costs are included. This position is in stark contrast to their stated concern that the HVI Project does not include quality information. We will continue to work with the hospital community to resolve these issues.

CHART has made the following progress since our last report:

1. CHART staff compiled the first-year data from the participating hospitals and on September 30 provided the results to hospitals and health plans for pre-publication review.
2. The Steering Committee has considered various quality measure reporting formats. They have not made a final decision regarding how the data will be displayed because some hospital representatives and the other members of the Steering Committee have not come to an agreement. Some hospitals want to display only a very small number of hospitals in the best and worst categories, with all of the other hospitals in a very large average category. The rest of the Steering Committee wants the data to be divided into quintiles—Outstanding, Above Average, Average, Below Average and Poor. The hospitals have expressed some valid concerns with the latter methodology, but we believe CHART can overcome those concerns.
3. The CHART Web site is in the final stage of development pending the outcome of the reporting format decision. As a result, the Steering Committee decided to delay the Web site launch to January 2007.

## **V. STRATEGIC PLAN:**

This item supports Health Goal XII: Engage and influence the healthcare marketplace to provide medical care that optimizes quality, access, and cost.

**VI. RESULTS/COSTS:**

Staff is implementing the Board's Partnership for Change to reduce healthcare costs, ensure a high value hospital network for our members, and improve the overall quality and efficiency of care provided by network hospitals.

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Loren Suter  
Senior Strategic Advisor

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Terri Westbrook  
Assistant Executive Officer  
Health Benefits Branch